



B2B: Worth the Effort?

As p-card programs expand, more suppliers accept card payments. It's good business if you can get it.

By Richard H. Gamble

As with consumers, corporations have developed a strong liking for using Visa, MasterCard, and American Express cards for more of their procurement, which means that larger transactions are showing up as card purchases. It's a market that even aggressive feet-on-the-street ISOs have largely ignored.

Consider one law firm whose clients paid for services with corporate purchasing cards. The firm used a terminal for high six-figure transactions and paid more than 3.5 percent in interchange, reports Aaron Bills, chief operating officer of 3Delta Systems Inc. in Chantilly, Virginia. The firm switched acquirers when alert salespeople showed officials how to get a 1.2 percent interchange rate. Now, they are saving 230 basis points on a lot of money by qualifying for interchange breaks for large transactions and for reporting Level 3 data (line item detail).

"They saved over \$1,000 on their first transaction, which was for more than \$50,000," Bills reports.

No doubt p-card-driven business-to-business transactions are lucrative and a lot less saturated than the familiar world of consumer-to-business transactions. However, going after this market can be a mixed bag for ISOs.

The Rewards

The commercial payments sector is largely untapped for card payments, according to consultant Ali Raza, executive vice president of Speer & Associates in Atlanta. "It's a high-growth, high-potential market," he says. "It's still dominated by paper check payments. Both Visa and MasterCard are clearly seeing this as an area of opportunity."

"B2B is good for ISOs looking to expand," Bills insists. "Salespeople drive across town to call on a new store or restaurant, passing industrial parks full of merchants that they are not calibrated to see."

3Delta Systems, a provider on the merchant side of the p-card market, is getting calls from ISOs that "feel punished in to-



day's consumer retail space, where businesses are closing, sales are down, and consumers are cutting back, partly because issuers have clipped their credit limits," Bills reports. "P-card volumes are not sharing in that decline."

B2B also is more profitable because those merchants "work closely with you over the years and tend to stay with you if you work hard for them," says Diane Merrihan, B2B specialist at Heartland Payment Systems in Princeton, New Jersey.

Charge Card Systems, an ISO in Boca Raton, Florida, recently entered the p-card supplier ranks and has boarded its first supplier. "We wanted to provide our agents with opportunities beyond knocking on doors of retail merchants that see so many salespeople they get numb. P-card suppliers represent vast potential," says Adam Moss, vice president for sales. "Now salespeople can go to merchants that want to hear about solutions, not price, and welcome a consultative approach. It gives them a chance to break out of the pack."

A small retail store may do \$10,000 or \$20,000 of transactions in a month. A B2B merchant might do hundreds of thousands, Moss points out. "Our profits are based on

volume, and B2B merchants have volume."

The key to supporting such business, Moss reports, is having the right partners. "We sign them up and turn them over to 3Delta, which has a lot of experience," he explains. "They provide a gateway that connects merchants to First Data, our processor, and First Data is set up to handle Level 3 data."

Small-dollar p-card purchases started years ago and are showing modest growth, Bills reports. What's new is a push to take purchases requiring purchase orders and approval of invoices before payment is authorized, sometimes by providing a card number to the supplier at the end of the approval process. This move to high-ticket card purchases has pushed the average p-card transaction size from around \$650 to around \$1,300, with approved invoice transactions often in the six figures, he notes.

The Obstacles

B2B card commerce is no secret, and there are reasons that most ISOs haven't pursued it. Heartland has been active in the B2B space for 12 years, but that business line remains relatively small. That's because "it

takes a lot of work and a different customer sales structure,” Merrigan says. “It’s not for everybody. It’s a long sales cycle. The prospects are harder to find. You’re dealing at a corporate level, and customer service can be intensive. This is not a quick-sale business, and that turns off some merchant level sales reps.”

Identifying prospects, however, may be the greatest impediment. The world’s largest procurement operation is the U.S. government, and Uncle Sam requires most suppliers to accept p-card payments for large and small transactions, so government suppliers are an obvious target. That’s because there are so many of them, because volume can be high, and because these suppliers can be identified relatively easily. “You can go to a government Web site and see a list of suppliers. It’s public knowledge,” Merrigan points out.

Finding suppliers taking corporate p-card payments is harder because they are not listed on a public Web site, Merrigan explains. “The banks are keeping most of

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—Diane Merrigan,
Heartland Payment Systems

that business for themselves,” she says. It’s probably not worth the effort to try to cultivate a relationship with p-card issuers like USBank, JPMorgan Chase, or Bank of America to sign up the suppliers of their p-card clients, she suggests.

But an ISO could survey the merchants in its portfolio to determine which of them lack corporate purchasing card programs and would be interested in considering them. Then the ISO could approach an issuer and offer to make introductions in return for getting a crack at the merchants’ suppliers.

The best approach, Moss suggests, may

be to focus on businesses such as law firms, accounting firms, printers, trucking companies, janitorial services firms, and landscaping firms that primarily serve businesses, he reports. And don’t overlook trade associations that represent such businesses. “We love trade associations,” he adds.

Delivering service is no cinch either. These merchants want solutions that integrate into their POS systems, and the larger ones have ERP systems in which a merchant processing solution would have to be embedded, says Greg Cohen, president of Moneris Solutions in Chicago.

“A salesperson would need to partner with a gateway or middleman to round out the service offering a B2B merchant would expect,” he adds. The best approach is not simply to supply Level 3 card processing but to offer a “full processing suite that encompasses all types of payments,” he says.

Ideally, a sales organization would partner with a p-card issuer since this business is largely issuer driven; the issuer sells a procurement operation a p-card program and then goes after a list of suppliers to get them to accept the card, Cohen explains. “The payment gateways are doing an excellent job, but they need sales channels.”

Data security can be another hurdle. In the p-card world, buyers often want to use the card-on-file model, which means that suppliers have to store sensitive card data, raising the stakes for PCI compliance, Bills points out. “The more you store, the bigger your exposure and potential liability and the bigger your compliance burden under PCI,” he notes. The solution, he says, is tokenization and outsourcing storage of the sensitive real data to a provider with robust security rather than forcing merchants to build security fortresses around their stored data and go through a lot of PCI compliance.

B2B is a major niche that is “showing tremendous growth and is still underserved,” Cohen concludes. “As more cards are issued, buyers need more suppliers to accept card payments. If a salesperson has the fortitude and patience, the profit margins are higher and the merchants are stickier.” **TT**

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